# DOME PETROLEUM LIMITED 1977 ANNUAL REPORT

## ANNUAL MEETING

The Annual General Meeting of the Shareholders will be held at the Royal York Hotel, Toronto, Ontario, on May 1, 1978 at 2:30 p.m. A formal notice of meeting and proxy form are enclosed with this report.

Please return your proxy if you are unable to attend the meeting. The proxy may be revoked if you subsequently decide to attend the meeting.

## FRONT COVER

A stone carving of "Nalukatuk", the Eskimo festival game of blanket bouncing. The objective of the game is to perform gymnastics when tossed in the air and land erect back on the walrus or seal hide blanket.

## *FORM 10-K*

*Copies of the Annual Report on Form 10-K filed with the Securities and Exchange Commission of the United States are available free of charge by writing to the Corporate Secretary of the Company.*

## CONTENTS

# COMPARATIVE HIGHLIGHTS

## FINANCIAL

| | 1977 | 1976 |
|---|---|---|
| Revenue | $521,433,000 | $385,490,000 |
| Cash Flow from Operations | $162,015,000 | $109,806,000 |
| Cash Flow Per Share* | $14.43 | $ 9.55 |
| Earnings Before Deferred Income Taxes | $138,064,000 | $ 91,275,000 |
| Earnings Per Share Before Deferred Income Taxes* | $12.29 | $ 7.94 |
| Net Earnings | $104,285,000 | $ 55,254,000 |
| Net Earnings Per Share* | $ 9.29 | $ 4.80 |
| Capital Expenditures | $321,940,000 | $208,142,000 |

## OPERATING

| | 1977 | 1976 |
|---|---|---|
| Oil and Natural Gas Liquids Production (barrels per day) | 33,487 | 30,130 |
| Gas Production (million cubic feet per day) | 147.8 | 143.1 |
| Natural Gas Liquids Sales (barrels per day) | 82,800 | 75,407 |
| Recoverable Reserves of Oil, Natural Gas Liquids and Oil Equivalent of Gas (barrels)** | 332,022,400 | 307,600,000 |
| Wells Drilled | 352 | 333 |
| Land-Working Interest, Gross Acres | 42,475,000 | 43,173,000 |
| -Working Interest, Net Acres | 20,670,000 | 22,529,000 |
| -Gross Royalty Acres | 29,823,000 | 26,570,000 |

* Based on average shares outstanding, excluding Dome Petroleum's pro rata interest in its own shares held by Dome Mines.

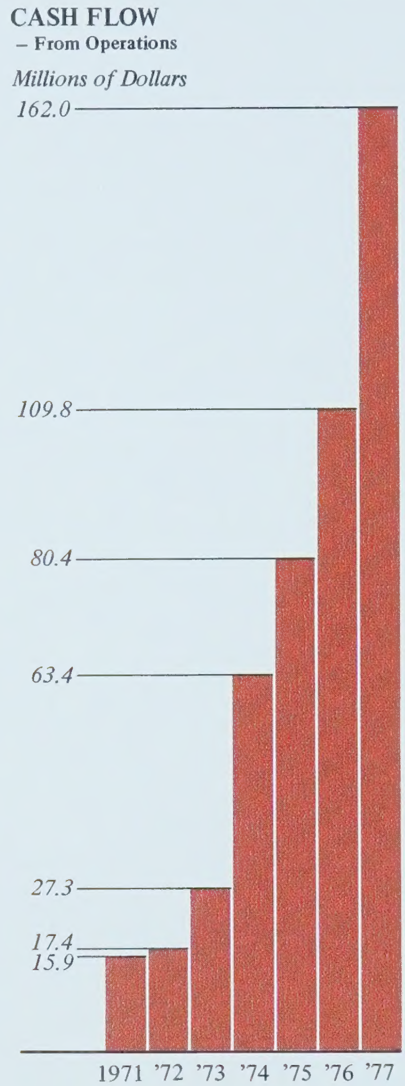
** Excludes heavy oil reserves at Hughenden and the Athabasca Oil Sands in Alberta, substantial gas reserves in the Canadian Arctic Islands and discoveries in the Beaufort Sea.
The oil equivalent of gas is determined on the basis of relative prices.

*Founded in 1950, Dome Petroleum is a 60% Canadian owned company engaged in the exploration for and development of crude oil and natural gas, primarily in Canada. The Company operates a large natural gas liquids extraction, transportation and wholesale marketing system whose facilities are located in Canada and the northern United States.*

*The Company's shares are listed on the Toronto and Montreal Stock Exchanges in Canada and on the American Stock Exchange in the United States.*

# REPORT OF THE DIRECTORS


**Revenue** increased 35% in 1977 to $521,433,000.




Substantial investment in prior years contributed to an increase in **Cash Flow** in 1977 to $162,015,000 ($14.43 per share) from $109,806,000 ($9.55 per share) in 1976.

The Company's performance in 1977 sustained the momentum of recent years, establishing new levels of financial and operational results for the Company.

As in prior years, the Company's primary effort has been to explore for and develop oil and gas reserves and related transportation and support facilities. From inception, the Company's entire cash flow and substantial borrowings have been reinvested in this effort, which is currently producing the major increases in revenue and earnings. This expanded cash flow allows the Company to participate aggressively in the expensive search for hydrocarbon reserves in the Arctic where the potentials are greatest and fully commensurate with the cost and risk.

Dome has become a leader in the development of the technology needed to conduct Arctic offshore exploration. With its Beaufort Sea discoveries in 1977 and its proposal to construct an Arctic Class 10 icebreaker, the Company hopes to open up the Arctic to year-round drilling and transportation operations and to develop a significant new energy resource for North America.

**Deferred Taxes** appearing on the Company's balance sheets do not represent an obligation of the Company. When Dome becomes subject to paying income taxes, it will pay tax only on the income in the year incurred, not on the income of prior years as long as the Company maintains a modest level of capital expenditures.

**Production** of oil, natural gas liquids and oil equivalent of natural gas averaged 51,756 barrels per day in 1977, compared to 45,600 barrels per day in 1976.

**Natural Gas Liquids** sales increased from 75,407 barrels per day in 1976 to 82,800 barrels per day in 1977.

**Potential Heavy Oil** acreage in the Lloydminister area of east central Alberta was purchased by the Company in 1977 and a development program will be undertaken in 1978.

**Exploration and Development** drilling programs conducted in 1977 included 139 gross exploratory wells (52 net wells) and 213 gross development wells (70 net wells). Exploration drilling resulted in the completion of 14 oil wells and 53 gas wells for a 48% success ratio.

**Arctic Islands** exploration continues to be of major interest to the Company. In excess of 13 trillion cubic feet (TCF) of gas reserves have been proven up on Panarctic acreage (in which Dome owns an approximate 4.5% interest).

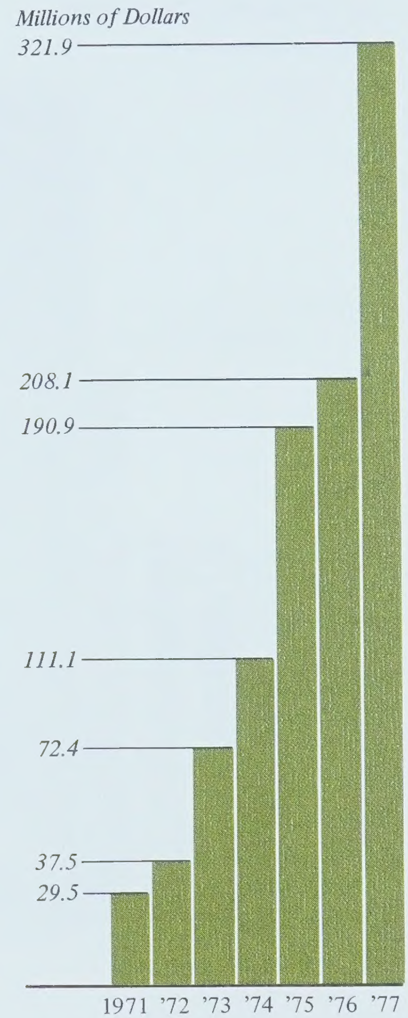
**Beaufort Sea** exploratory drilling results in 1977 were very encouraging. Significant oil and/or gas flows have been recorded at all four deep exploratory tests drilled to date. (See details under Exploration.)

Federal legislation was introduced late in 1977 setting out the

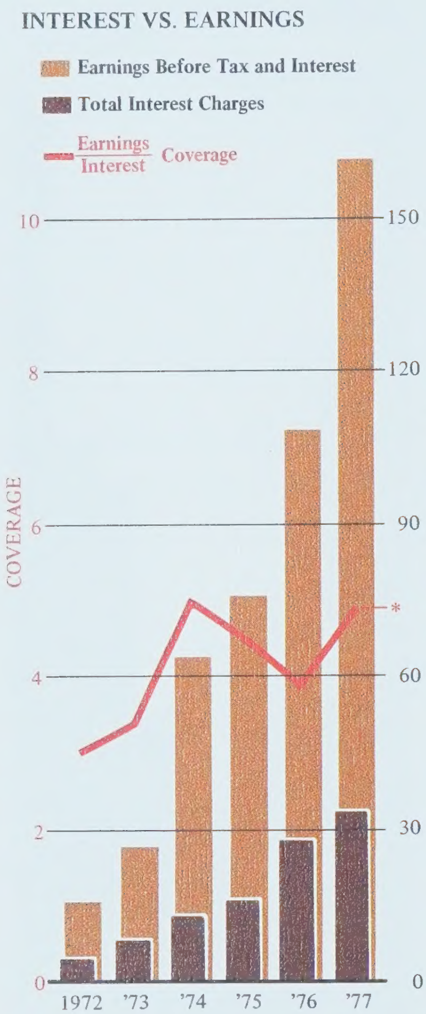
NET EARNINGS
– After Deferred Income Taxes


**Net Earnings** after deferred income taxes amounted to $104,285,000 ($9.29 per share) compared to $55,254,000 ($4.80 per share) in 1976.

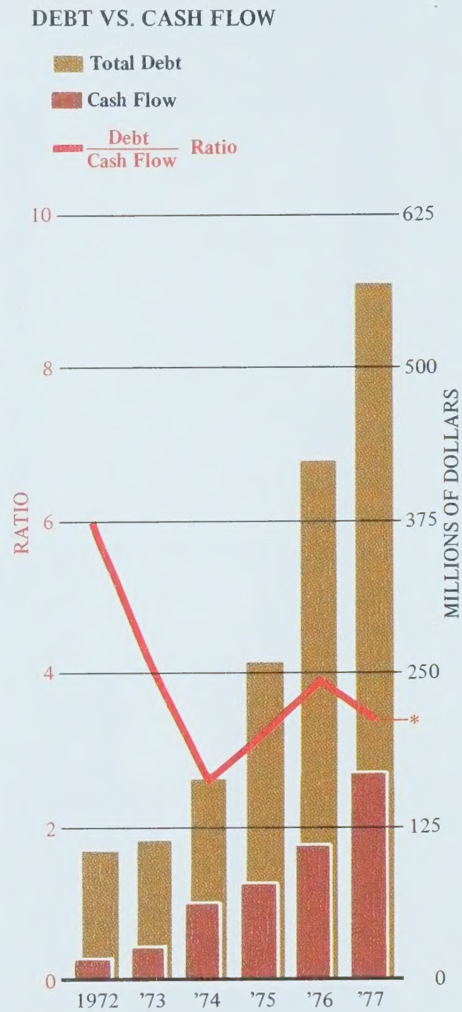
CAPITAL EXPENDITURES




**Gross Capital Expenditures** in 1977, including exploration, amounted to $321,940,000, compared to $208,142,000 in 1976.




* 1977 Earnings Coverage of Interest was 4.7 Times




* 1977 Debt was 3.5 Times Cash Flow

rules for petroleum exploration on federal lands. The proposed legislation, expected to be enacted in 1978, provides for a sliding gross royalty up to a maximum of 10% plus a profit sharing arrangement between industry and government, depending on the economics of the reserves discovered. Under this arrangement, the producer is entitled to recover a return on his investment before payment of the profit share.

Equally positive action has been taken by the Federal Government in the form of additional write offs on exploration expenditures against Canadian income from any source and a commitment to move the price of oil eventually to parity with international oil prices, with gas to be priced on a comparable heating value basis.

These actions will enable Canadians to participate in the development of new energy resources from Canada's frontier areas.

**The Ethane Project and Cochin Pipeline System** construction was essentially completed in 1977. This included a 390-mile ethane gathering system in Alberta, Dome operated extraction plants at Empress and Edmonton, underground storage facilities in Alberta and Ontario, and the 1,900 mile long Cochin pipeline from Edmonton, Alberta to Sarnia, Ontario via Chicago. Line fill will start in the first quarter of 1978 with product deliveries scheduled into eastern Canadian and United States markets by mid-year.

## INDUSTRY OVERVIEW

In 1977, the Federal Government continued its policy of moving Canadian crude oil prices toward international price levels. Oil prices were increased by $2.00 per barrel in two stages, $1.00 on January 1, 1977 and $1.00 on July 1, 1977. A further $3.00 per barrel increase was announced in three stages every six months beginning January 1, 1978. The average Alberta wellhead crude oil price for the six month period beginning January 1, 1978 is $11.75 per barrel.

The price for natural gas was also increased in line with its thermal equivalence to crude oil. The Toronto city gate price for natural gas as of February 1, 1978 was $1.855 per thousand cubic feet (MCF). The price of natural gas exports was also increased to $2.16 per MCF (Canadian funds) by year end. The combined impact of these market price increases was to increase the average Alberta field price of gas from $1.11 per MCF at the end of 1976 to approximately $1.45 per MCF at the end of 1977 and $1.55 per MCF by February 1, 1978.

The natural gas supply situation in Alberta became one of surplus reserves and deliverability during 1977 due essentially to the success of increased exploration resulting from higher prices, available markets and governmental incentives.

As Canadians come to appreciate the implications of the previously inadequate resource exploitation and the real significance of this major reversal in the trend of gas discoveries, reserves and deliverabilities in Canada, producers consider it essential that markets be opened for their surplus gas, both in Eastern Canada to reduce Canada's dependence on imported oil and in export markets to offset the balance of payments shortfall resulting from oil imports. Only by providing markets will the momentum of exploration success be maintained and increased.

The prospects for the oil and gas industry in Canada continue to be attractive and the Company therefore intends to maintain its active exploration and development programs.

* * *

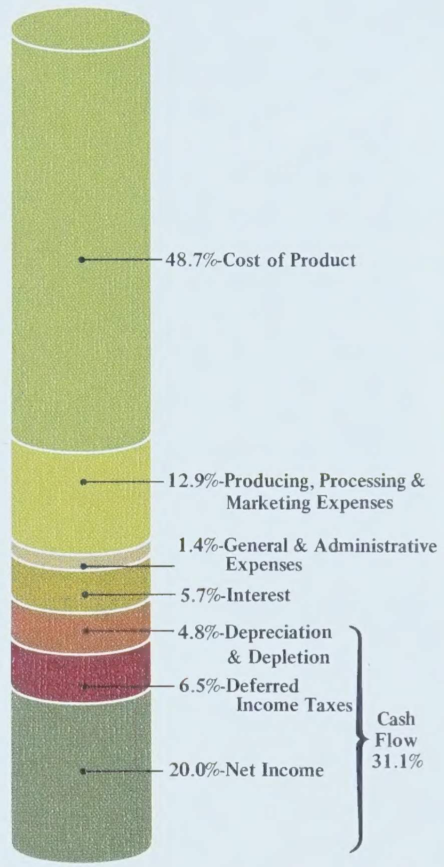
The people at Dome bring a unique blend of individual initiative and teamwork to our operations. The Board of Directors recognizes and appreciates their great contribution to a highly successful 1977.

J. P. GALLAGHER
Chairman of the Board

W. E. RICHARDS
President

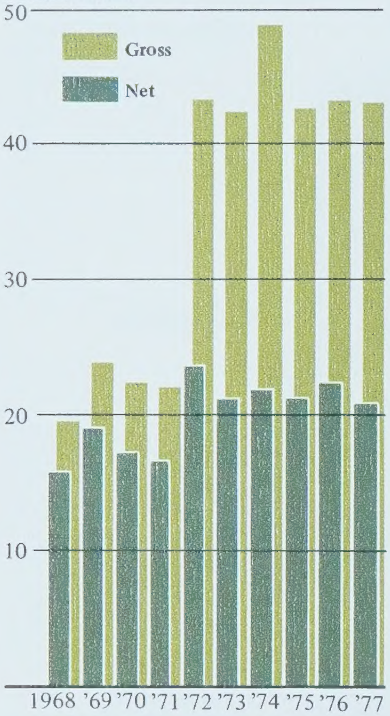
March 21, 1978

**DISTRIBUTION OF 1977 REVENUE**

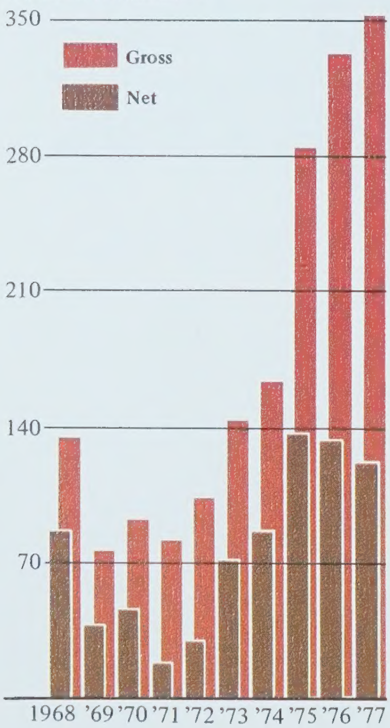


# EXPLORATION AND DEVELOPMENT REVIEW

LAND HOLDINGS
Excludes Royalty Interest
Millions of Acres




WELLS DRILLED




## EXPLORATION

The Company's exploratory drilling activity in 1977 once again established Dome as one of Canada's most active explorers. During the year, the Company drilled 1,678,000 feet of hole in Dome interest wells, an increase of about 22% over the footage drilled in 1976.

The Company participated in the drilling of 352 wells (equivalent to 122 - 100% wells) during the year, compared with 333 wells (133 net wells) in 1976.

Fourteen oil discoveries and 53 gas discoveries resulted from the drilling of 139 exploratory wells. (According to industry practice, a discovery is a successful well drilled more than one mile from a well capable of production.) Forty-five of these exploratory wells were drilled at no cost to Dome as a result of farmout agreements with other companies.

### Alberta and British Columbia

Exploration drilling in Alberta and British Columbia during 1977 resulted in eight oil and 47 gas discoveries as shown on the accompanying map. The most significant areas of activity are as follows:

- At Elmworth - 260 miles northwest of Edmonton, the Company drilled and set production casing in five gas wells, thereby acquiring interests ranging from 25% to 75% in 74,727 gross acres (35,796 net acres). At year-end, the Company was drilling four wells with plans to continue an active exploration program in the area.

- At West Pembina/Brazeau - 97 miles west of Edmonton, the Company has completed a gas well and is currently drilling two additional wells.

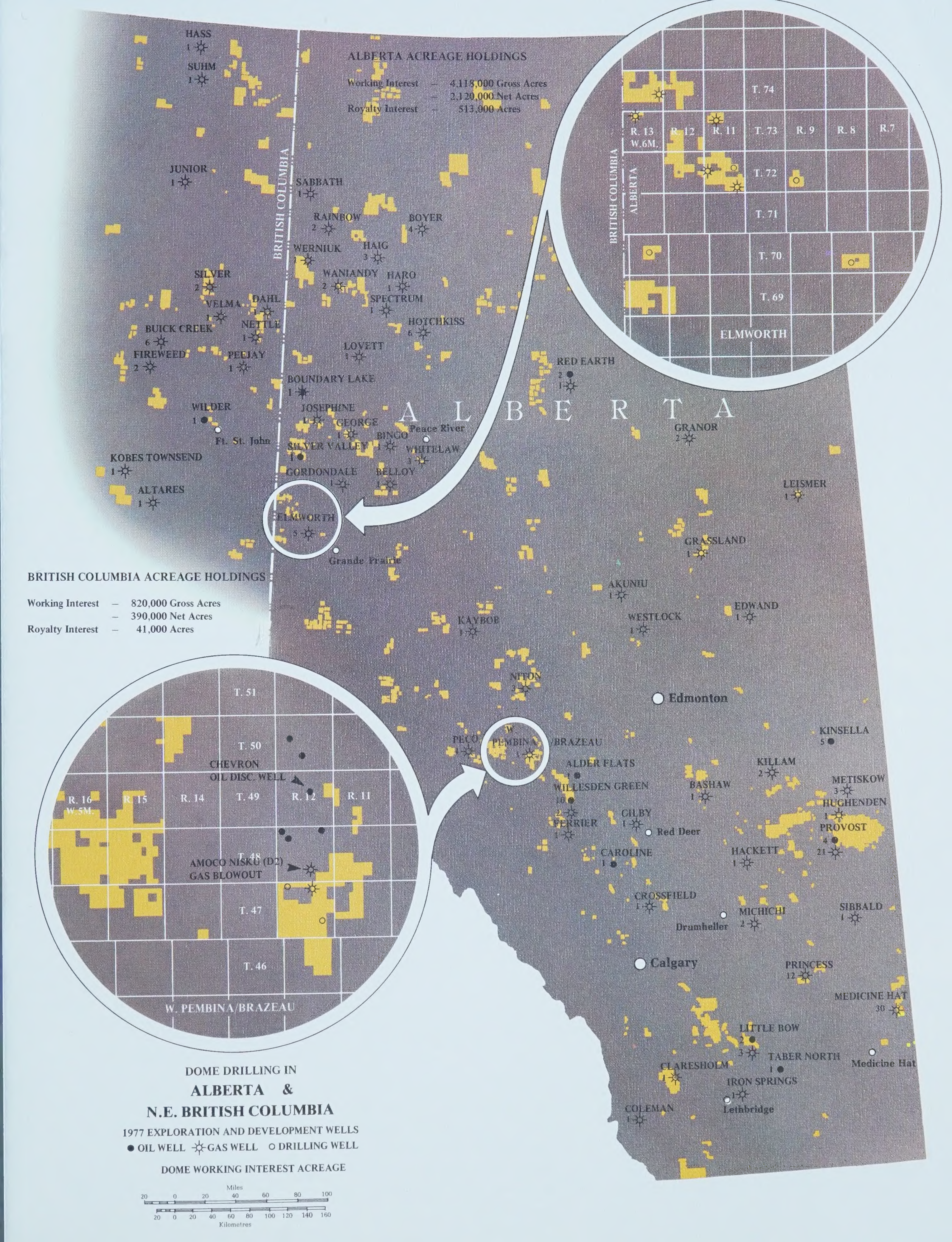
- At Whitelaw - 250 miles northwest of Edmonton, the Company participated in the drilling of three multi-zone gas wells and is currently drilling a follow-up. Dome has varied interests ranging from 36% to 100% in 9,600 gross acres in this area.

- At Metiskow - 166 miles southeast of Edmonton, exploratory drilling resulted in three gas discoveries. Dome holds a 37.5% interest in 14,360 gross acres in the area.

- At Little Bow - 80 miles southeast of Calgary, the Company participated in the drilling of one gas discovery followed by two step-out gas wells. Development drilling in another portion of the area resulted in two oil wells.

- At Boundary Lake South - near the British Columbia border northwest of Edmonton, exploratory drilling resulted in a combined oil and gas discovery. Dome has varied interests ranging from 5% to 75% in 5,320 gross acres in this area. Additional drilling planned for 1978 will define these new reserves. A second new oil discovery was placed on production about 20 miles southeast of the Boundary Lake wells.

- At Silver Valley - 293 miles northwest of Edmonton, exploratory drilling resulted in the completion of an oil well on acreage in which the Company holds varied interests in 9,600 gross acres (4,000 net acres).


ALBERTA ACREAGE HOLDINGS
Working Interest – 4,118,000 Gross Acres
– 2,120,000 Net Acres
Royalty Interest – 513,000 Acres
BRITISH COLUMBIA ACREAGE HOLDINGS
Working Interest – 820,000 Gross Acres
– 390,000 Net Acres
Royalty Interest – 41,000 Acres
BRITISH COLUMBIA
ALBERTA
A L B E R T A
HASS 1
SUHM 1
JUNIOR 1
SABBATH 1
RAINBOW 2
BOYER 4
WERNIUK 1
HAIG 3
SILVER 2
WANIANDY 2
HARO 1
VELMA 1
DAHL 1
SPECTRUM 1
NETTLE 1
BUICK CREEK 6
HOTCHKISS 6
FIREWEED 2
PEEJAY 1
LOVETT 1
RED EARTH 2 1
BOUNDARY LAKE 1
WILDER 1
JOSEPHINE 1
GEORGE 1
Ft. St. John
BINGO 1
Peace River
GRANOR 2
SILVER VALLEY 1
WHITELAW 3
KOBES TOWNSEND 1
GORDONDALE 1
BELLOY 1
ALTARES 1
LEISMER 1
ELMWORTH 5
Grande Prairie
GRASSLAND 1
AKUNIU 1
WESTLOCK 1
EDWAND 1
KAYBOE 1
NITON 2
Edmonton
PECO 4
W PEMBINA 1
BRAZEAU
KINSELLA 5
ALDER FLATS 1
KILLAM 2
METISKOW 3
WILLESDEN GREEN 10 2
BASHAW 1
HUGHENDEN 1
FERRIER 1
GILBY 1
Red Deer
PROVOST 4 21
CAROLINE 1
HACKETT 1
CROSSFIELD 1
MICHICHI 2
SIBBALD 1
Drumheller
Calgary
PRINCESS 12
MEDICINE HAT 30
LITTLE BOW 2 3
TABER NORTH 1
Medicine Hat
CLARESHOLM 1
IRON SPRINGS 1
Lethbridge
COLEMAN 1
T. 74
R. 13 W.6M.
R. 12
R. 11
T. 73
R. 9
R. 8
R. 7
T. 72
T. 71
T. 70
T. 69
ELMWORTH
T. 51
T. 50
CHEVRON OIL DISC. WELL
R. 16 W.5M.
R. 15
R. 14
T. 49
R. 12
R. 11
T. 48
AMOCO NISKU (D2) GAS BLOWOUT
T. 47
T. 46
W. PEMBINA/BRAZEAU
DOME DRILLING IN
ALBERTA &
N.E. BRITISH COLUMBIA
1977 EXPLORATION AND DEVELOPMENT WELLS
● OIL WELL ☼ GAS WELL ○ DRILLING WELL
DOME WORKING INTEREST ACREAGE
Miles
20 0 20 40 60 80 100
20 0 20 40 60 80 100 120 140 160
Kilometres

*Right: Summer on Ellesmere Island in the High Arctic desert where average precipitation is three inches per year.*

*Far Right: Off-loading cargo from the Percy M. Crosbie at Rea Point, Melville Island.*

LAND HOLDINGS SUMMARY

| AREA | 1977 Working Interest Gross Acres | 1977 Working Interest Net Acres | 1977 Royalty Acres | 1976 Working Interest Gross Acres | 1976 Working Interest Net Acres | 1976 Royalty Acres |
|---|---|---|---|---|---|---|
| Alberta | 4,118,000 | 2,120,000 | 513,000 | 4,277,000 | 2,867,000 | 670,000 |
| British Columbia | 820,000 | 390,000 | 41,000 | 768,000 | 460,000 | 209,000 |
| Saskatchewan | 523,000 | 183,000 | 79,000 | 301,000 | 119,000 | 85,000 |
| Manitoba | 40,000 | 28,000 | – | 79,000 | 35,000 | – |
| Ontario and Hudson Bay | – | – | 1,960,000 | – | – | 2,995,000 |
| Arctic Islands | 22,001,000 | 10,782,000 | 16,669,000 | 23,935,000 | 12,661,000 | 14,710,000 |
| Beaufort Sea | 8,153,000 | 3,885,000 | 5,566,000 | 7,398,000 | 3,499,000 | 3,167,000 |
| Mackenzie Valley | 4,653,000 | 1,702,000 | 3,826,000 | 4,603,000 | 1,627,000 | 3,560,000 |
| Canadian East Coast | 988,000 | 988,000 | 1,169,000 | 988,000 | 988,000 | 1,169,000 |
| Alaska | 146,000 | 99,000 | – | 144,000 | 95,000 | – |
| Other United States | 982,000 | 487,000 | – | 629,000 | 172,000 | 5,000 |
| North Sea (U.K.) | 51,000 | 6,000 | – | 51,000 | 6,000 | – |
| Total | 42,475,000 | 20,670,000 | 29,823,000 | 43,173,000 | 22,529,000 | 26,570,000 |

- At Hoss and Suhm - 93 miles and 83 miles northeast of Fort Nelson, B.C., respectively, the Company participated in two gas discoveries. At Hoss, Dome earned an 18.75% interest in 4,500 gross acres (844 net acres); and at Suhm, Dome holds a 35% interest in 9,350 gross acres (3,273 net acres).

## Saskatchewan

In west central Saskatchewan, Dome drilled a three well program at Senlac, resulting in two heavy oil discoveries and a gas well. In addition, a deep test was drilled in southeastern Saskatchewan and two further deep tests are planned for 1978. The Company will also participate in a deep drilling prospect in the southwestern part of the province.

## United States

Most of the Company's U.S. operations in 1977 were concentrated in the San Juan Basin of New Mexico and in Nevada, with lesser emphasis in Wyoming and Kansas. Dome drilled 26 wells in the San Juan Basin resulting in four wildcat oil discoveries and 10 development oil wells. Dome has interests ranging from 6% to 100% in 429,000 gross acres in the San Juan area. In Nevada, an exploratory well is currently drilling as a follow-up to detailed seismic surveys conducted in the area.

## Arctic Islands

Dome maintains a continuing interest in Arctic Island exploration. Currently, the Company holds 22,001,000 gross acres (10,782,000 net acres) in the Canadian Arctic Islands in addition to its 4.5% direct and indirect interest in Panarctic Oils Ltd., which holds title to 71,000,000 gross acres (27,000,000 net acres).

Through its own lands and its Panarctic interest, Dome has participated in the delineation of substantial gas reserves in the Arctic Islands. Panarctic estimates proven and probable gas reserves at Hecla and Drake Point on Melville Island at 9.1 TCF and in the Ellef Ringnes/King Christian Islands area at 4.4 TCF.

During the past year, Dome continued its participation in the final year of a three-year $42 million seismic program conducted offshore and on-ice between the islands. Interpretation of the resulting data has indicated a number of attractive geological structures considered to have good hydrocarbon potential.

With the introduction of legislation in late 1977 setting out the rules of petroleum exploration on federal lands, firmer programs for exploration in the Arctic can now be formulated. Dome has been one of the most active explorers in the frontier areas and proposes to continue this effort.

The Company's proposed icebreaker should demonstrate the economics of tanker movement in the Arctic. Subject to the results of the icebreaker's experimental phase, the Company believes that the logical way to move oil and/or gas out of the Arctic areas initially is by icebreaker tankers assisted by our proposed vessel. Compared to a pipeline, this method requires only a small fraction of the oil and gas reserve threshold and capital and gives much greater flexibility and cost control.

*Middle: Panarctic Tenneco et al Bent Horn N-72 exploratory well on Cameron Island. The first Paleozoic oil discovery in the Arctic Islands.*

*Right: Frozen desert terrain on Melville Island appears foreboding but the ice-free conditions enable relatively easy drilling rig movements.*

*Far Right: Seismic vessel conducts an offshore seismic program in the Arctic Islands.*






144°00'
140°00'
136°00'
128°00'
124°00'
120°00'
116°00'
112°00'
108°00'
78°00'
76°00'
74°00'
72°00'
110°00'
109°00'
108°00'
76°30'
76°30'
HECLA GAS FIELD
DRAKE POINT GAS FIELD
SABINE PENINSULA
76°00'
BORDEN
Brock
MACKENZIE KING
PRINCE
PATRICK
Mould Bay
Eglinton
MELVILLE
Rea Point
Winter Harbour
BANKS
Johnson Point
Sachs Harbour
STEFANSSON
VICTORIA
124°00'
120°00'
116°00'
112°00'
108°00'



# ARCTIC ISLANDS

MILES
50 0 50 100
50 0 50 100 150
KILOMETRES

DOME WORKING INTEREST ACREAGE

DOME ROYALTY INTEREST ACREAGE

LOCATION OR DRILLING WELL

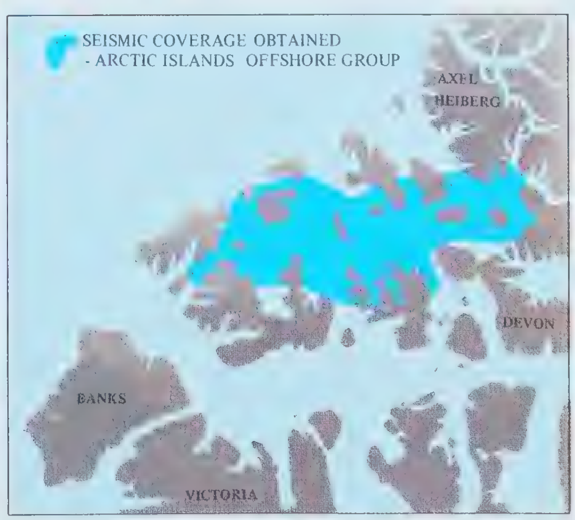
PROPOSED LOCATION

OIL WELL

GAS WELL

OIL SHOW

SEA LEVEL
200 METRES
500 METRES



*Oil and natural gas flaring during a production flow test from Canmar drillship Explorer III at the Dome Hunt Nektoralik K-59 well during the 1977 Beaufort Sea drilling season.*

**Yukon Territory**

Dome participated in a gas discovery at Kotaneelee, located between the Pointed Mountain and N. Beaver gas fields in the Southern Yukon. Dome's share of production revenue from this project will be 19.77%. A step-out development well is currently drilling. This discovery is within one mile of a natural gas transmission line which should lead to early marketing of these reserves.

**Beaufort Sea**

During the summer of 1977, Dome participated with other companies in the drilling of three significant oil and/or gas discoveries in this offshore Mackenzie Delta area.

- Ukalerk C-50 - Tests of a 90 ft. gas zone between 6,530 and 6,620 feet gave restricted flow rates of about 17 million cubic feet per day and an estimated open flow rate in excess of 200 million cubic feet per day. Two deeper apparent gas zones were not tested.

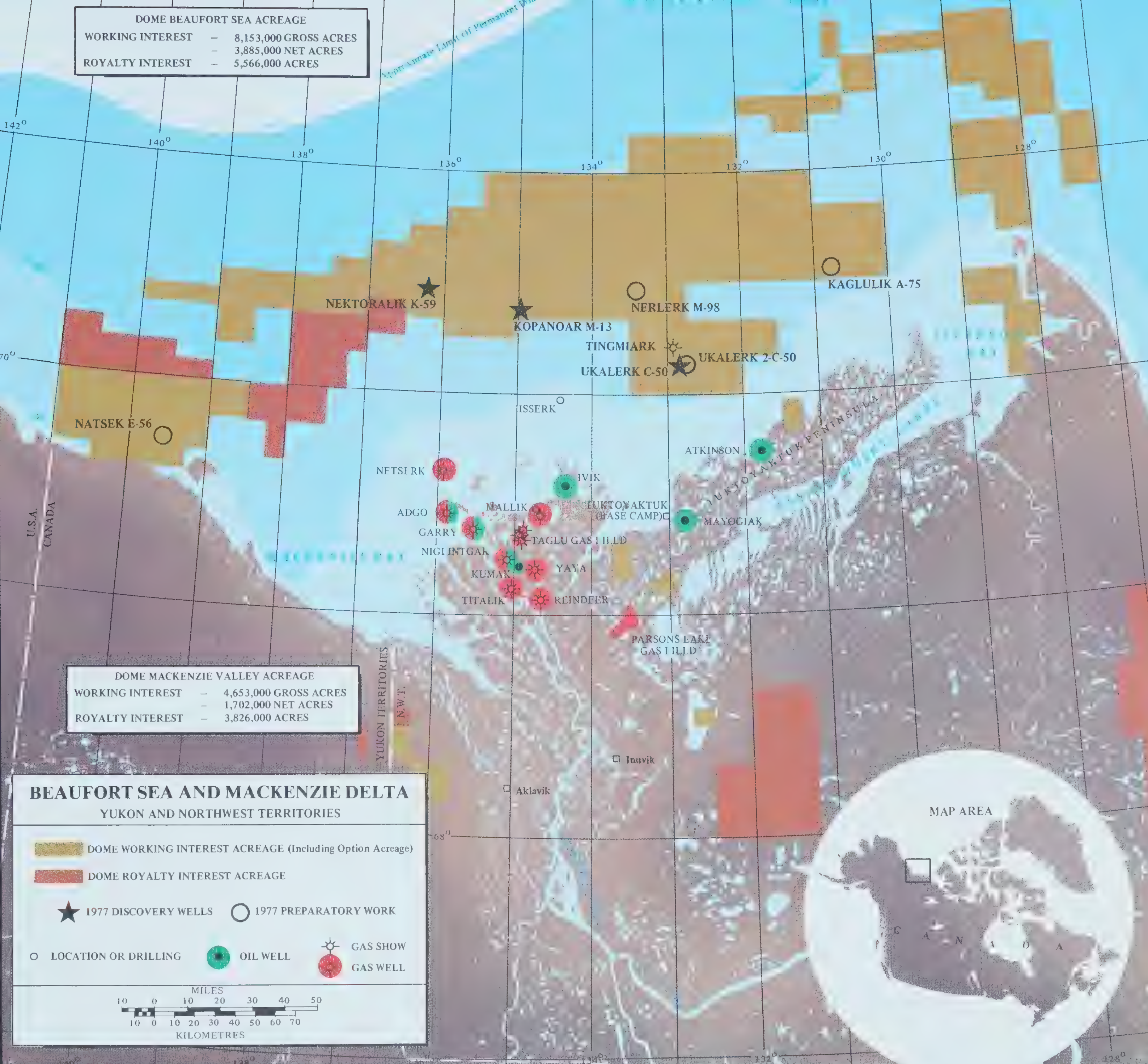
Further drilling will be carried out on this structure during 1978 to test deeper potentials. On completion of a well to 12,000 feet, Dome will have earned a 33% interest in 174,000 acres covering and surrounding this structure.

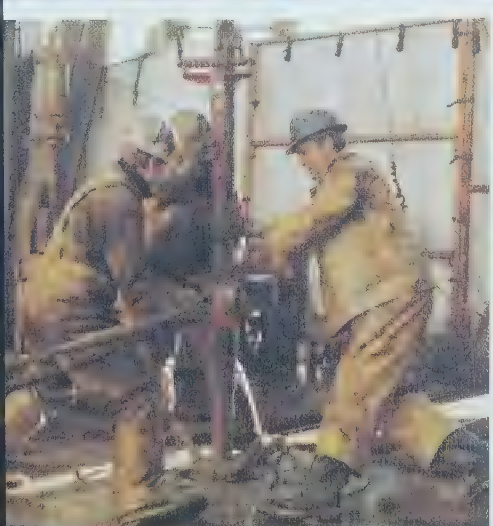
- Nektoralik K-59 - was drilled and cased to a depth of 9,150 feet where high bottom-hole pressures made further drilling impracticable. A substantial oil flow was obtained from one zone, gas and oil from a second zone and gas and condensate from a third zone. As none of these zones encountered water, and as the reservoirs are shown by seismic records to thicken considerably off the crest of the structure, thicker pay zones are expected over an extensive area on the flanks of the structure.

- Kopanoar M-13 - was drilled to a depth of 9,164 feet and

*Right: Drill crew makes up a joint of drill pipe as Canmar drillship Explorer I drills ahead at the Ukalerk C-50 location.*

*Far Right: Artist's rendering of the proposed Arctic Marine Locomotive (AML), a Class 10 icebreaker that could open up the Arctic to year round drilling and transportation operations.*


DOME BEAUFORT SEA ACREAGE
WORKING INTEREST – 8,153,000 GROSS ACRES
– 3,885,000 NET ACRES
ROYALTY INTEREST – 5,566,000 ACRES
NEKTORALIK K-59
KOPANOAR M-13
NERLERK M-98
KAGLULIK A-75
TINGMIARK
UKALERK 2-C-50
UKALERK C-50
ISSERK
NATSEK E-56
ATKINSON
NETSERK
IVIK
ADGO
MALLIK
TUKTOYAKTUK (BASE CAMP)
MAYOGIAK
GARRY
TAGLU GAS FIELD
NIGLINTGAK
KUMAK
YAYA
TITALIK
REINDEER
TUKTOYAKTUK PENINSULA
PARSONS LAKE GAS FIELD
U.S.A.
CANADA
DOME MACKENZIE VALLEY ACREAGE
WORKING INTEREST – 4,653,000 GROSS ACRES
– 1,702,000 NET ACRES
ROYALTY INTEREST – 3,826,000 ACRES
YUKON TERRITORIES
N.W.T.
Inuvik
Aklavik
BEAUFORT SEA AND MACKENZIE DELTA
YUKON AND NORTHWEST TERRITORIES
DOME WORKING INTEREST ACREAGE (Including Option Acreage)
DOME ROYALTY INTEREST ACREAGE
1977 DISCOVERY WELLS
1977 PREPARATORY WORK
LOCATION OR DRILLING
OIL WELL
GAS SHOW
GAS WELL
MILES
10 0 10 20 30 40 50
10 0 10 20 30 40 50 60 70
KILOMETRES
MAP AREA
C A N A D A



suspended September 25 without testing the indicated gas and oil zones encountered. This well is planned to be re-entered in 1978 and deepened to at least 12,000 feet before testing these and deeper zones.

Surface casing was set at two new locations: Nerlerk M-98 to 1,800 feet where Dome holds a 92½% interest and Kaglulik A-75 to 1,300 feet where Dome holds a similar interest. In addition, preparatory work was conducted at five future drill sites.

Dome's interest in the Ukalerk C-50, Nektoralik K-59, Kopanoar M-13 and Nerlerk M-98 wells is subject to a 7½% net carried interest reserved to investors in the drilling venture.

Preliminary exploratory plans for 1978 include the following (refer to map on page 13): 1) re-drill the Ukalerk C-50 well, 2) complete the drilling and testing of the suspended Kopanoar M-13 well, 3) drill a 12,000 ft. test at Nerlerk M-98, 4) re-enter Kaglulik A-75 well in the eastern Beaufort Sea, 5) initiate drilling at Natsek E-56 in the western Beaufort Sea (preparatory site work was completed in 1977). Time permitting, surface casing will be set at additional locations in preparation for drilling in 1979.

Despite the heavy expenditures incurred in frontier drilling, the tax incentives associated with drilling in the Beaufort Sea are expected to result in the participation of a great many individual investors in the Beaufort Sea drilling fund currently being prepared for public issue.

*Far Left: Helicopter on the deck of Explorer III, after transporting personnel from the Tuktoyaktuk support base to the drillship.*

*Left: Explorer III moored on the Nektoralik K-59 drill site in a calm sea state typical of the Beaufort Sea in summer.*

## CANADIAN MARINE DRILLING LTD.

Dome's contract drilling operations in the Beaufort Sea are conducted by a wholly-owned subsidiary, Canadian Marine Drilling Ltd. (Canmar).

The second season of exploratory drilling on the Company's permit acreage in the Beaufort Sea was conducted during 1977. Prior to starting the 1977 season a number of improvements were made to the three ice-reinforced drillships, two additional ships were added to the existing fleet of five ice-breaker support ships, and extensive additions were made to the supply base at Tuktoyaktuk in order to improve further the logistical support for this remote drilling operation.

Drilling operations were conducted at a total of five sites during the 1977 season and seafloor preparatory operations were conducted at a number of future drilling locations. As in 1976, the government required that drilling of deep wells be terminated September 25. The Company is hopeful that in future years a more flexible cut-off date will be established relative to weather conditions prevailing at the time.

Company engineers have been devising ways of gaining early breakout from the drillships' wintering sites by creating artificially weakened channels in the ice. Early breakout of the fleet onto the drillsites and extension of the regulated drill season by the Federal Government should improve the pace of drilling in the Beaufort Sea and reduce the cost of each well.

Also under study and development are means of extending the operating capability of the drill systems to function in greater ice thicknesses and concentrations in the Beaufort Sea area, and to enable the drill systems to be used in other ice-covered ocean areas of the Arctic.

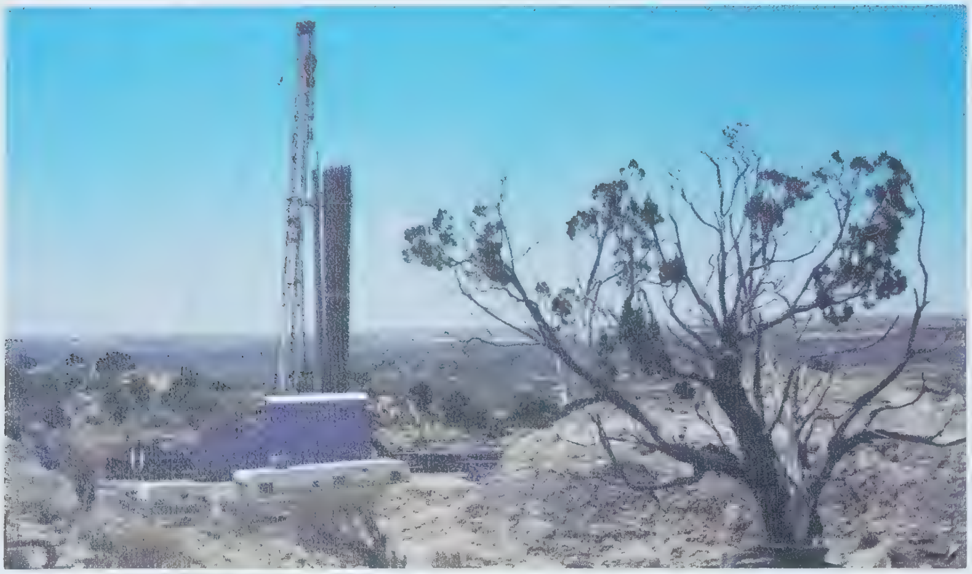
Company marine architects have also completed the design of a 150,000 horsepower Arctic Class 10 icebreaker, designated an "Arctic Marine Locomotive" or AML. The presence of this vessel should extend the drilling season in Arctic waters and determine the feasibility of year-round marine transportation in the Arctic. It will be capable of pushing or pulling other ice-strengthened vessels.

◂ *Aerial view of the support base at Tuktoyaktuk, with two supply vessels taking on supplies for the drillships in the Beaufort Sea. Before the drilling season starts, supplies are transported to the base down the Mackenzie River from Hay River, N.W.T.*

*Far Left: Anchored about 20 miles north of Tuktoyaktuk support base, Canmar Carrier is re-supplied with bulk materials shipped from Hay River via river barge. The Carrier serves as an interim supply base and reduces the need for supply vessels to make the longer return trip between the drillships and the 'Tuk' base.*

*Left: One of seven supply vessels used to support the three drillships operating in the Beaufort Sea.*

*Drilling rig in the San Juan Basin of New Mexico, where most of Dome's U.S. operations were concentrated. Four wildcat oil discoveries and 10 development oil wells resulted from the San Juan Basin drilling program in 1977.*



## DEVELOPMENT

Dome conducted an active development drilling program in 1977 which resulted in an additional 111 gross gas wells (40 net wells) and 31 gross oil wells (19 net wells). The most significant areas of development activity are as follows:

### Oil

- At Kinsella, in east central Alberta, five oil wells were drilled, bringing to 14 the number of wells now operating in the area. Water injection facilities are currently being constructed to increase oil recovery.

- In the Rocky Mountain House area of Alberta, about 100 miles northwest of Calgary, nine new oil wells were drilled and placed on production.

- At Willesden Green, the Company commenced the ethane injection phase of its miscible flood project. Production from this field is increasing and is now running more than three times the rates that would have been obtained without implementation of the enhanced recovery project.

- In the San Juan Basin of New Mexico, 14 oil wells were completed. Dome's interest is 25%.

### Natural Gas

- At Hotchkiss North, 300 miles northwest of Edmonton, construction of a 15 million cubic feet per day plant and gathering facilities for eight Dome interest wells was completed and production commenced in October. Dome's share of production has averaged 4.6 million cubic feet per day (MMCFD).

- In the Provost, Brownfield and Castor areas of east central Alberta, fifty-five new gas wells were placed on stream with the construction of three new processing plants and six new compression facilities. The Dome-operated facilities in these areas now have a capability of 115.6 MMCFD with the Company's interests ranging from 64% to 92%.

- At Josephine-Eureka, 300 miles northwest of Edmonton, design and construction of a central hydrocarbon dew-point and compression plant started in 1977 for completion in the first half of 1978. Dome will own 29% of the capacity in this 50-60 MMCFD plant.

- At Patricia, 100 miles east of Calgary, four of 12 development wells drilled in 1977 were tied-in to surface facilities and the remainder are to be connected in 1978.

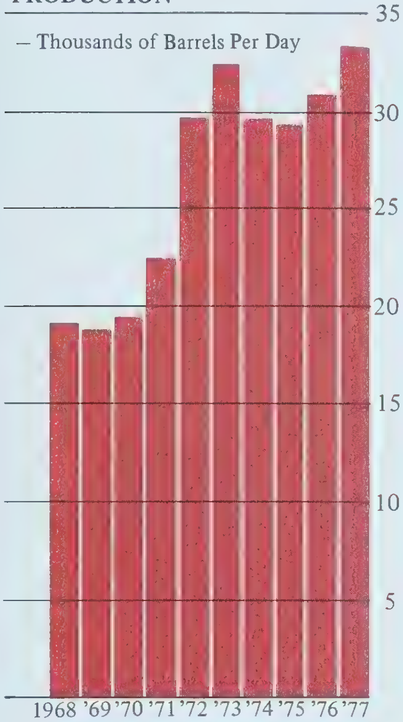
- At Vulcan, approximately 60 miles southeast of Calgary, the Company-operated Vulcan Gas Plant No. 2, with design capacity of 30.5 MMCFD, was placed on stream in April. Dome's interest in this facility is 34%.

- At Whitelaw, 250 miles northwest of Edmonton, drilling in 1977 established gas reserves in five zones. Development will continue in 1978, with gas sales expected to commence in 1979.

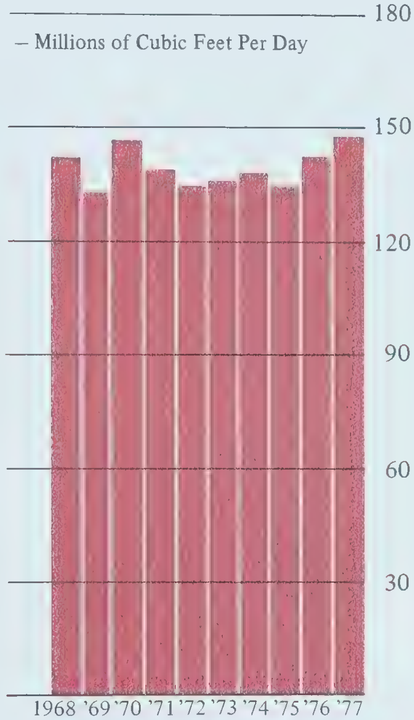
- In northern British Columbia, development continued in the Buick Creek and Dahl-Velma-Silver areas. At Buick Creek, production facilities for ten Dome interest wells were installed during the year. Installation of production facilities for nine wells at Dahl-Velma and three wells at Silver commenced late in 1977.

# OPERATIONS REVIEW

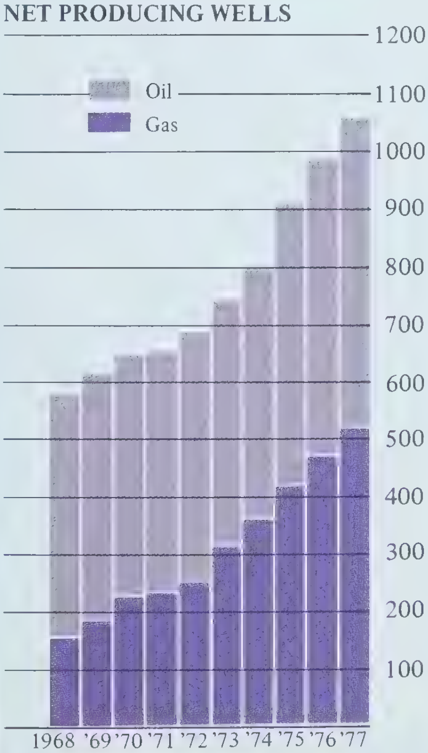
**OIL & NATURAL GAS LIQUIDS PRODUCTION**



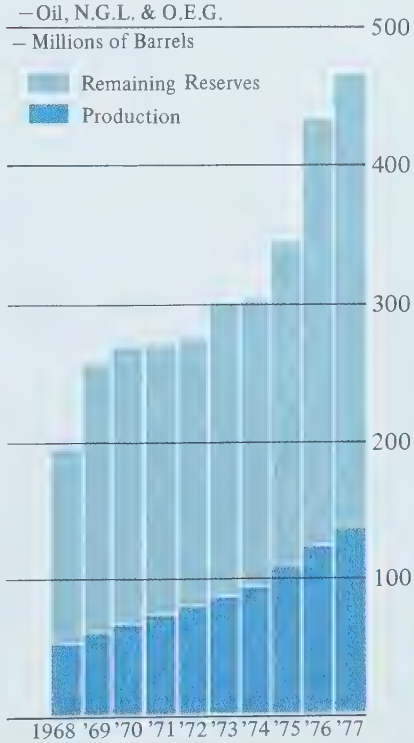

**GAS PRODUCTION**




**NET PRODUCING WELLS**




**GROSS RESERVES***




* Excludes Arctic Gas Reserves & Heavy Oil Reserves
N.G.L. - Natural Gas Liquids
O.E.G. - Oil Equivalent of Gas

## Production and Reserves

Production of crude oil and natural gas liquids in 1977 was 12,199,980 barrels (33,487 barrels per day), compared to 11,028,000 barrels (30,130 barrels per day) in 1976.

Natural gas production in 1977 amounted to 53.9 billion cubic feet (147.8 million cubic feet per day), compared to 52.4 billion cubic feet (143.1 million cubic feet per day) produced in 1976.

After deducting 1977 production of 10,826,000 barrels of oil, natural gas liquids (excluding reprocessing plant production) and oil equivalent of gas, recoverable reserves at year-end amounted to 332,022,400 barrels of crude oil, natural gas liquids and oil equivalent of gas, compared to 307,600,000 barrels in 1976. (The oil equivalent of gas is determined on the basis of relative prices).

Excluded from these reserve totals are substantial gas reserves in the Arctic Islands and major heavy crude oil reserves in Canada. No allowance has been made for gas reserves discovered in the Beaufort Sea. All reserve figures are stated as gross since it is not practical to project full-life royalty rates given the numerous and variable factors prevailing in the various jurisdictions.

At December 31, 1977, 294,000 gross acres (103,115 net acres) were under oil production and 1,020,315 gross acres (580,963 net acres) were under natural gas production.


## Natural Gas Liquids (NGL)

Dome is the operator and an approximate 50% owner of an extensive integrated NGL processing, transportation, storage and marketing system extending from Alberta to Ontario and the eastern United States.

This NGL system consists of a number of extraction plants in which NGL's are separated from natural gas streams; a pipeline gathering system which transports Dome's NGL production as well as NGL's purchased from others into storage facilities for shipment in batches through Interprovincial Pipe Line from Alberta to Sarnia, Ontario; and a fractionation plant in Sarnia, where some of the liquids are separated into specification grade propane, butane and condensate.

NGL system throughput averaged 99,200 barrels per day and total natural gas liquids sales averaged 82,800 barrels per day in 1977.

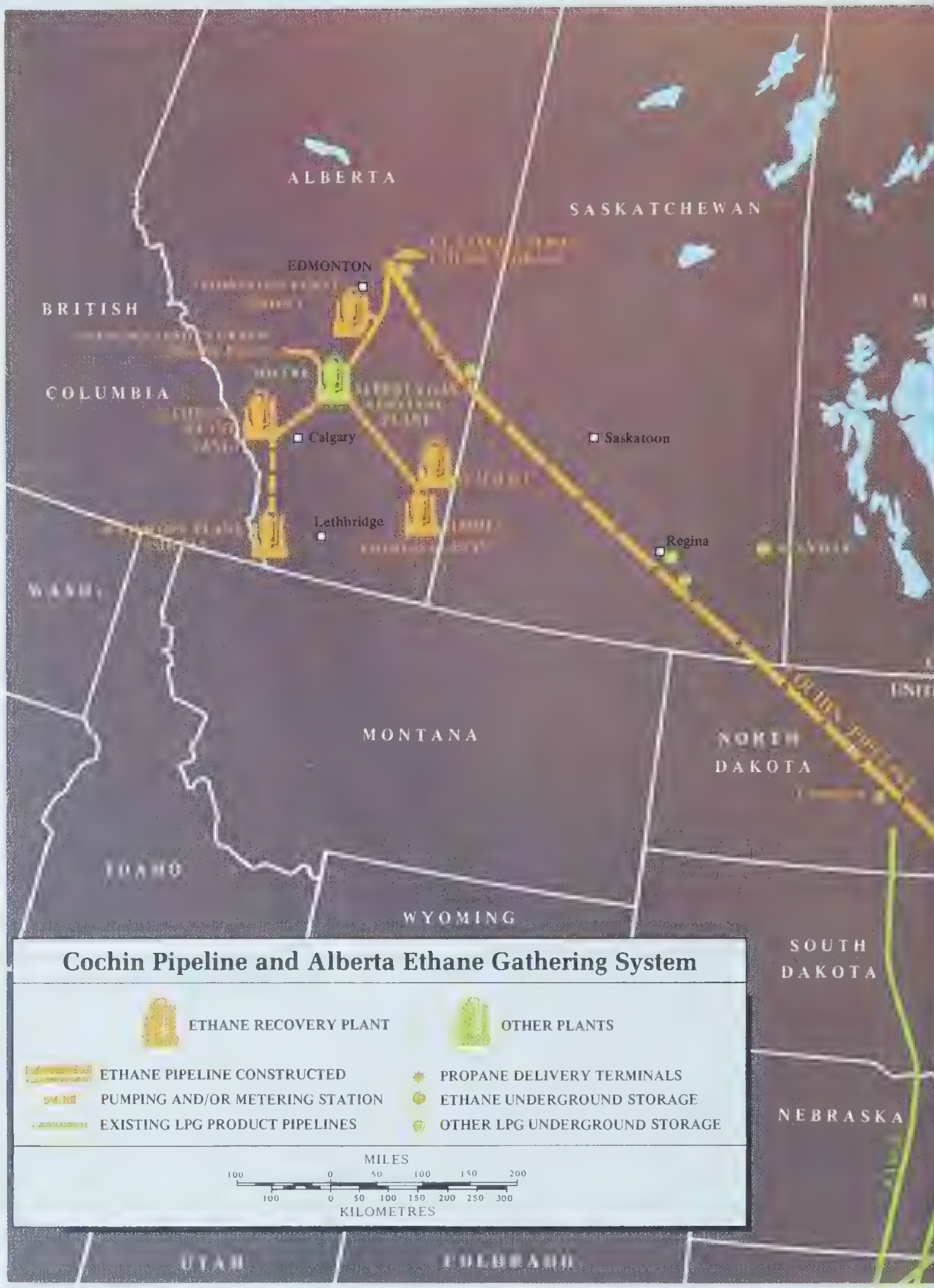
*Top Right: Dome Fractionation Plant at Sarnia, Ontario, where natural gas liquids originating in Western Canada are fractionated into propane, butane and condensate.*

*Top Left: Natural gas liquids and ethane are extracted at Dome's extraction plant at Empress, in southeastern Alberta. The ethane from this plant and other extraction plants in Alberta is used as feedstock for manufacturing ethylene for the petrochemical industry.*

*Alberta Natural Gas extraction plant at Cochrane, west of Calgary, Alberta, where natural gas liquids are extracted and transported via Dome's gathering pipelines to storage facilities at Fort Saskatchewan, near Edmonton, Alberta, and Kerrobert, Saskatchewan.*

*Cochin pipeline laying operations flanked by an Illinois cornfield in September, 1977. Essentially completed at year-end, the 1,900-mile long pipeline from Edmonton, Alberta to Sarnia, Ontario is slated to start product deliveries into eastern Canadian and United States markets by mid-1978.*

*Cranes prepare to raise de-methanizer tower during construction of the Edmonton ethane extraction plant which will be completed in 1978. The Dome-operated plant will supply ethane feedstock to a major ethylene plant in central Alberta as well as ethane for the Cochin Pipeline System.*




## Ethane Project and Cochin Pipeline System

Dome is a participant in a $1.5 billion integrated project that will enable the development of worldscale petrochemical facilities in Alberta.

The Ethane Project includes the following components: the extraction of ethane from natural gas streams in Alberta; the upgrading of ethane into ethylene for use as feedstock by a number of Alberta manufacturers to produce ethylene-based petrochemicals; and the transportion of ethane and ethylene surplus to Alberta's requirements to eastern Canadian and United States markets through the 1,900 mile long Cochin Pipeline System operated by Dome. Specification propane will also be shipped through this line to markets in the U.S. Midwest. Construction of the pipeline was virtually completed at year-end and line fill will start in the first quarter of 1978. A second 10-inch line has been approved by the National Energy Board to be built later when volumes justify its constuction.

During 1977, the 390-mile ethane gathering system was completed. This system will eventually deliver 80,000 barrels per day of ethane to an ethylene plant under construction at Joffre, Alberta and to Cochin's Fort Saskatchewan terminal.

Propane demand studies conducted in 1977 indicated the need for five propane delivery terminals in U.S. Midwest market areas. Located in North Dakota, Minnesota, Iowa, and Indiana, these terminals are now under construction and will be ready for operation in the third quarter of 1978.



*Bottom Left: Production from the Willesden Green field in Alberta has increased three-fold with the implementation of the ethane injection phase of this miscible flood project.*

*Below: Laying of the Cochin pipeline involved a number of river crossings including this Mississippi River crossing, believed to be the first time that four bundled pipelines have ever been pulled simultaneously across a river.*

# FINANCIAL REVIEW

**Management's Discussion and Analysis of the Company's Financial Statements for 1977 and 1976**

The Company experienced significant growth during 1977. Net earnings increased to $104,285,000 ( $9.29 per share ) from $55,254,000 ($4.80 per share). Earnings before deferred income taxes amounted to $138,064,000 ($12.29 per share) as compared to $91,275,000 ($7.94 per share) in 1976.

Provision for deferred income taxes was $33,779,000 in 1977 as compared to $36,021,000 in 1976. Deferred income taxes for 1977 were provided at a lower rate than in 1976 as a result of recently introduced federal frontier exploration allowances earned by drilling in the Beaufort Sea.

The Company does not expect accumulated deferred income taxes to become payable, provided a reasonable program of capital expenditures is maintained in future years.

Revenue increased 35% to $521,433,000. Crude oil and natural gas sales after royalties amounted to $77,004,000 as compared to $55,523,000 in 1976. Propane and other natural gas liquids sales increased in 1977 by 28% to $338,412,000, the result of higher demands for volumes from traditional markets due to the severe winter experienced during the early part of 1977. Revenue from pipeline tariffs increased by 13% to $16,627,000. Marine drilling and other revenue increased to $89,390,000 from $51,237,000 in 1976, the result of Canmar employing all of its drillships during the 1977 operating season in the Beaufort Sea.

Cost of product in 1977 was $254,261,000, an increase of 19%, the result of increased sales volumes and prices for natural gas liquids.

Producing, processing and marketing expenses amounted to $67,390,000, an increase of $27,029,000, reflecting the growth in Company activities. General and administrative expenses also increased because of greater Company activities.

Interest expense for 1977 amounted to $29,446,000 as compared to $18,068,000 in 1976. This increase is the result of additional issues of long term debt during the year. Interest expense amounting to $6,533,000, relating to the financing of work in progress, was capitalized during the year. During 1976 $9,945,000 in interest was capitalized.

Depreciation and depletion for 1977 amounted to $25,189,000. The increase of $6,975,000 is primarily the result of the Canmar Drilling division completing its first full season of operations during 1977.

The Financial Accounting Standards Board (FASB) in the United States has recommended that all oil and gas producing companies use a "successful efforts" method of accounting (whereby exploration expenses are charged to income as incurred) rather than "full cost" accounting currently being used by the Company (whereby such costs are capitalized and amortized over the life of the producing reserves). A public hearing will be conducted in March by the U.S. Securities and Exchange Commission to determine appropriate policies and accounting requirements for the industry.

The U.S. Department of Justice has asked the Securities and Exchange Commission to postpone adoption of a uniform standard of accounting procedures for oil and gas producers until the Commission demonstrates that such a standard would improve the flow of information to investors or will not have anti-competitive consequences.

The Company is advised that at present both the "full cost" and the "successful efforts" methods of accounting remain as acceptable alternatives in Canada. Therefore, the Company will continue accounting for its oil and gas operations using the "full cost" method, and reporting to shareholders will not be affected.

Cash flow from operations amounted to $162,015,000 in 1977 ($14.43 per share) as compared with $109,806,000 ($9.55 per share) in 1976. Substantial investment in prior years has contributed to this increase in cash flow. Other major sources of funds provided during the year were from dividends received of $1,520,000 from issues of common shares of $1,450,000 and from long term borrowings of $177,933,000 including a private placement of $158,811,000 of 20 year debentures with a group of insurance companies.

Funds were applied to property, plant and equipment expenditures in the amount of $273,278,000, reduction of long term debt of $29,858,000 and other expenditures of $4,412,000. Capital expenditures during 1977 consisted of exploration, land acquisition and development costs of $177,290,000; plant, pipeline and related facility costs of $129,160,000 and drillship and supply vessel costs of $15,490,000.

Working capital at December 31, 1977 amounted to $101,701,000, an increase of $35,370,000.

# CONSOLIDATED STATEMENT OF EARNINGS

YEARS ENDED DECEMBER 31, 1977 AND 1976

| | 1977 | 1976 |
|---|---|---|
| REVENUE | $521,433,000 | $385,490,000 |
| EXPENSE | | |
| Cost of product | 254,261,000 | 212,977,000 |
| Producing, processing and marketing | 67,390,000 | 40,361,000 |
| General and administrative | 7,083,000 | 4,595,000 |
| Depreciation | 19,500,000 | 12,956,000 |
| Depletion | 5,689,000 | 5,258,000 |
| Interest on long term debt | 27,982,000 | 17,153,000 |
| Other interest | 1,464,000 | 915,000 |
| | 383,369,000 | 294,215,000 |
| EARNINGS BEFORE DEFERRED INCOME TAXES | 138,064,000 | 91,275,000 |
| Deferred income taxes (Note 8) | 33,779,000 | 36,021,000 |
| NET EARNINGS | $104,285,000 | $ 55,254,000 |
| PER COMMON SHARE | | |
| Earnings before deferred income taxes | $12.29 | $ 7.94 |
| Net earnings | $ 9.29 | $ 4.80 |

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 1977 AND 1976

| | 1977 | 1976 |
|---|---|---|
| RETAINED EARNINGS, BEGINNING OF YEAR | $191,875,000 | $136,621,000 |
| NET EARNINGS | 104,285,000 | 55,254,000 |
| RETAINED EARNINGS, END OF YEAR | $296,160,000 | $191,875,000 |

See accompanying summary of significant accounting policies and notes

# CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1977 AND 1976

| ASSETS | 1977 | 1976 |
|---|---|---|
| CURRENT: | | |
| Cash and short term deposits | $ 35,771,000 | $ 25,692,000 |
| Accounts receivable | 176,207,000 | 135,246,000 |
| Inventories of product | 49,320,000 | 35,955,000 |
| Materials and supplies | 23,895,000 | 19,450,000 |
| | 285,193,000 | 216,343,000 |
| INVESTMENTS | | |
| Dome Mines Limited (Market value 1977 - $133,475,000; 1976 - $85,500,000) (Note 1) | 76,909,000 | 76,191,000 |
| Less Dome Petroleum's pro rata interest in its shares held by Dome Mines Limited | 37,811,000 | 37,811,000 |
| | 39,098,000 | 38,380,000 |
| Panarctic Oils Ltd. | 8,876,000 | 7,838,000 |
| Other investments | 3,317,000 | 2,902,000 |
| | 51,291,000 | 49,120,000 |
| PROPERTY, PLANT AND EQUIPMENT, at cost (Note 2) | 981,333,000 | 706,021,000 |
| Less accumulated depreciation and depletion | 130,588,000 | 103,365,000 |
| | 850,745,000 | 602,656,000 |
| DEPOSITS AND LONG TERM RECEIVABLES (Note 4) | 10,514,000 | 7,555,000 |
| | $1,197,743,000 | $875,674,000 |

See accompanying summary of
significant accounting policies and notes.

| LIABILITIES AND SHAREHOLDERS' EQUITY | 1977 | 1976 |
|---|---|---|
| CURRENT: | | |
| Bank loans | $ 22,944,000 | $ 19,293,000 |
| Accounts payable | 132,139,000 | 92,276,000 |
| Advances on drilling contract | 5,565,000 | 5,791,000 |
| Long term debt due within one year | 22,844,000 | 32,652,000 |
| | 183,492,000 | 150,012,000 |
| LONG TERM DEBT (Note 3) | 520,466,000 | 372,391,000 |
| DEFERRED INCOME TAXES | 160,418,000 | 125,639,000 |
| SHAREHOLDERS' EQUITY | | |
| Capital (Note 4) | | |
| Authorized - 15,000,000 common shares of no par value | | |
| - 10,000,000 preferred shares | | |
| Issued - 12,152,411 common shares (1976 - 12,114,526) | 75,018,000 | 73,568,000 |
| Retained earnings | 296,160,000 | 191,875,000 |
| | 371,178,000 | 265,443,000 |
| Less Dome Petroleum's pro rata interest in its shares held by Dome Mines Limited (Note 1) | 37,811,000 | 37,811,000 |
| | 333,367,000 | 227,632,000 |
| | $1,197,743,000 | $875,674,000 |

ON BEHALF OF THE BOARD:

Director

Director

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 1977 AND 1976

| | 1977 | 1976 |
|---|---|---|
| FUNDS WERE PROVIDED BY: | | |
| Operations - | | |
| Net earnings | $104,285,000 | $ 55,254,000 |
| Add charges not requiring an outlay of funds including depreciation, depletion and deferred income taxes | 59,968,000 | 55,235,000 |
| Less equity in earnings of affiliates | (2,238,000) | (683,000) |
| Cash flow from operations | 162,015,000 | 109,806,000 |
| Dividends received | 1,520,000 | 380,000 |
| Issues of long term debt | 177,933,000 | 160,642,000 |
| Issues of common shares | 1,450,000 | 27,465,000 |
| | 342,918,000 | 298,293,000 |
| FUNDS WERE USED FOR: | | |
| Expenditures for property, plant and equipment | 320,902,000 | 206,858,000 |
| Less amounts contributed through participation agreements (Note 5) | 47,624,000 | 36,939,000 |
| | 273,278,000 | 169,919,000 |
| Reduction of long term debt | 29,858,000 | 28,013,000 |
| Investment in Dome Mines Limited | — | 75,888,000 |
| Investment in Panarctic Oils Ltd. | 1,038,000 | 1,284,000 |
| Increase in deposits, long term receivables and other investments | 3,374,000 | 4,108,000 |
| | 307,548,000 | 279,212,000 |
| INCREASE IN WORKING CAPITAL | $ 35,370,000 | $ 19,081,000 |

See accompanying summary of significant accounting policies and notes.

## AUDITORS' REPORT *To the Shareholders of Dome Petroleum Limited.*

*We have examined the consolidated balance sheet of Dome Petroleum Limited as at December 31, 1977 and 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.*

*In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and 1976 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis during the years.*

*Calgary, Canada*
*March 8, 1978.*

*CLARKSON, GORDON & CO.*
*Chartered Accountants.*

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DECEMBER 31, 1977 AND 1976

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and include the accounts of Dome Petroleum Limited and its subsidiary companies, each of which is wholly owned. The excess of the consideration paid for the shares of subsidiaries over their net book values at date of acquisition has been attributed to property, plant and equipment.

### FOREIGN CURRENCY TRANSLATION

Current assets and current liabilities are translated at the rate of exchange prevailing at the balance sheet date. Long term assets and liabilities are translated at rates in effect at the dates the assets were acquired or obligations incurred. Revenue and expense items are translated at average rates for the year with the exception of depletion and depreciation which are at the rates of exchange used for translation of the related assets. The resulting gains and losses are included in earnings.

### INVENTORY VALUATIONS

Inventories of product are valued at the lower of average cost and net realizable value. Materials and supplies are valued at average cost.

### INVESTMENTS

The Company accounts for its investment in Dome Mines Limited on the equity method. Under this method the investment is carried at cost plus the related equity in undistributed earnings. The Company's 4.26% interest in Panarctic Oils Ltd. is carried at cost.

### PROPERTY, PLANT AND EQUIPMENT

The Company follows the full-cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. The Company's share of such costs incurred in drilling in the Beaufort Sea includes depreciation of drillships and related facilities, interest and operating expenses. Provision for depletion of these costs is computed on the composite unit-of-production method based on estimated proven reserves of oil and gas as determined by Company engineers. In the calculation, natural gas reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

Oil and gas production facilities and other equipment are depreciated on the unit-of-production method.

Plants, buildings, pipelines and related facilities and drillships and supply vessels are depreciated on the straight-line basis at rates designed to amortize the assets over their estimated useful lives.

Tangible assets and major improvements are capitalized and repair costs are charged against income as incurred.

Interest on funds borrowed to finance the construction of major assets is capitalized during the construction period. The capitalized interest is calculated at the effective borrowing rate, and is included in property, plant and equipment for depreciation purposes.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1977 AND 1976

### 1. INVESTMENT IN DOME MINES LIMITED

The Company owns 1,900,000 common shares representing a 29.5% interest in Dome Mines Limited. Dome Mines Limited owns 25.4% of the outstanding shares of the Company resulting in the Company having a pro rata interest of 7.5% in its own shares. The investment in Dome Mines Limited and shareholders' equity have therefore been reduced by the allocated portion of the dollar cost of the investment in shares of Dome Mines Limited relating thereto.

The excess of the purchase price over the book values of Dome Mines Limited other than its holdings in Dome Petroleum Limited amounted to approximately $24,500,000 and is largely attributable to the value of the mineral reserves held by Dome Mines Limited. This excess is being amortized over the expected life of the mineral assets.

## 2. PROPERTY, PLANT AND EQUIPMENT

| | Gross investment at cost | Accumulated depreciation and depletion | Net Investment 1977 | Net Investment 1976 |
|---|---|---|---|---|
| | (In thousands of dollars) | | | |
| Plant, buildings, pipelines and other related facilities | $281,306 | $ 56,579 | $224,727 | $154,328 |
| Oil and gas properties | 353,965 | 38,676 | 315,289 | 190,425 |
| Production facilities and other equipment | 132,023 | 14,197 | 117,826 | 66,758 |
| Drillships and supply vessels | 214,039 | 21,136 | 192,903 | 191,145 |
| | $981,333 | $130,588 | $850,745 | $602,656 |

The Company is participating in the construction of ethane extraction and gathering facilities and a pipeline from Alberta to Eastern Canada and the United States. The Company's estimated investment will be $155,000,000 of which approximately $97,000,000 has been expended to December 31, 1977.

Interest of $6,533,000 (1976 - $9,945,000) relating to the financing of assets has been capitalized.

## 3. LONG TERM DEBT

| | 1977 | 1976 |
|---|---|---|
| | (In thousands of dollars) | |
| First mortgage bonds | | |
| 9½% Series A Debentures due 1997 (U.S. $150,000,000) | $158,811 | $ — |
| 6½% Bonds due 1985 | 551 | 602 |
| 7% Serial bonds due 1984 (U.S. 1977 - $6,172,000; 1976 - $6,874,000) | 6,658 | 7,415 |
| 5¾% Sinking fund bonds due 1978 | 97 | 425 |
| Term bank loans, with interest varying from ¾% to 1¼% in excess of the prevailing prime bank rate - | | |
| In Canadian funds due 1986 - 1988 | 314,775 | 321,533 |
| In U.S. funds due 1981 (U.S. 1977 - $53,500,000; 1976 - $63,250,000) | 52,109 | 61,805 |
| Liability under royalty acquisition agreement | 9,808 | 12,578 |
| Other | 501 | 685 |
| | 543,310 | 405,043 |
| Less amounts due within one year | 22,844 | 32,652 |
| | $520,466 | $372,391 |

The 9½% Series A Debentures are secured by a first fixed specific mortgage and charge upon certain of the Company's oil and gas properties, related production equipment and sales agreements. The Trust Deed securing the debentures requires annual redemptions of Series A Debentures at varying amounts in each of the years 1983 to 1996.

As security for the term bank loans, the Company has issued collateral demand debentures which represent specific and floating charges on various plants, pipelines and related facilities, certain producing properties, drillships and supply vessels and has pledged product inventories and assigned certain amounts due under natural gas liquids marketing agreements. In addition, the 1,900,000 shares of Dome Mines Limited have been pledged as collateral security for certain of the term loans. At December 31, 1977 the company had an unused line of credit of $54,000,000 under these banking arrangements.

Under the royalty acquisition agreement Dome Petroleum Limited agreed to advance up to $45,000,000 between the years 1974 and 1989 in consideration for a gross overriding royalty interest in certain specified lands. Based upon the expected rate of development expenditures and proving of reserves, the probable timing of the remaining payments of $41,000,000 (which varies in relation to the proving of reserves) has been discounted, using an imputed rate of 12% resulting in a present value at December 31, 1977 of $9,808,000 (1976 - $12,578,000).

Long term debt repayable in United States funds has been translated at the rates of exchange in effect at the dates the obligations were incurred. United States accounting practice requires that long term debt payable in foreign funds be translated at exchange rates in effect at the end of the year and the unrealized exchange gain or loss included in earnings currently. If the Company had followed this practice, long term debt would have been increased by $11,886,000 at December 31, 1977 (1976 - $1,740,000) and net earnings would have been reduced by $10,146,000 ($0.90 per share) in 1977 and $739,000 ($0.06 per share) in 1976.

Approximate installments of long term debt (including sinking fund payments) due in each of the years 1979 to 1982 are: 1979 - $24,671,000; 1980 - $25,723,000; 1981 - $79,289,000 and 1982 - $45,739,000.

## 4. CAPITAL

Shares issued during the years ended December 31,1977 and 1976 were as follows:

| | 1977 Shares | 1977 Amount | 1976 Shares | 1976 Amount |
|---|---|---|---|---|
| | (Amounts in thousands of dollars) | | | |
| Under Stock Purchase Plans | 37,230 | $1,443 | 163,370 | $3,465 |
| In exchange for shares of a subsidiary | 205 | — | 238 | — |
| On the exercise of an option | 450 | 7 | — | — |
| In exchange for shares of Dome Mines Limited | — | — | 700,000 | 24,000 |
| | 37,885 | $1,450 | 863,608 | $27,465 |

At December 31, 1977 174,198 shares (1976 - 62,083) were reserved for sale under Stock Purchase Plans, options

granted to employees, the granting of options under the Company's various Stock Option Plans, and shares of a subsidiary not yet presented for exchange. Under the Stock Purchase Plans, 159,900 shares (1976 - 47,130) were reserved and the Company has agreed to advance funds to a Trustee to be used by the Trustee for the purchase and immediate resale to employees of the Company's shares at a price not less than the average sale price of such shares on the day preceding the date of the transaction. Of the 159,900 shares reserved under the Stock Purchase Plans, 74,000 shares have been sold to the Trustee at a price of $40.00 per share, contingent upon the listing and registration of the shares affected. In addition, the Company has made interest free loans to employees to enable them to purchase shares from the Company under stock option agreements. At December 31, 1977 $7,307,000 (1976 - $6,525,000) was receivable by the Company under the above arrangements and is included in Deposits and Long Term Receivables.

By supplementary letters patent dated May 9, 1977, 10,000,000 preferred shares were authorized to be issued in series for a maximum consideration of $150,000,000. The directors have the power to determine the rights and conditions attached to each series.

## 5. PARTICIPATION AGREEMENTS

Under various agreements, other than conventional farm-out agreements, certain third parties have agreed to participate in the Company's exploration and development program in order to earn varying interests in the lands covered by the agreements. At December 31, 1977 approximately $188,038,000 had been contributed under the above arrangements, of which $47,624,000 related to the current year (1976 - $36,939,000).

## 6. NET EARNINGS PER SHARE

Net earnings per share are based on the weighted monthly average number of shares outstanding of 11,231,000 in 1977 and 11,501,000 in 1976. The weighted average number of shares outstanding has been reduced by the Company's pro rata interest in its outstanding shares held by Dome Mines Limited. The exercise of all outstanding stock options and presentation of all the outstanding shares of a subsidiary for exchange would have no material effect on the per share calculation.

## 7. DIRECTORS AND OFFICERS

The ten members of the Board received $35,900 (ten members 1976 - $44,140) for their services as directors. Two of the directors are also officers. The aggregate remuneration paid in 1977 to the thirteen officers was $784,716 (twelve officers 1976 - $713,458).

## 8. INCOME TAXES

Deferred income taxes amounted to $33,779,000 in 1977 and $36,021,000 in 1976 which amounts differ from the expected tax expense obtained by applying the Canadian corporate tax rate to earnings before deferred income taxes. These differences are accounted for as follows:

| | 1977 | 1976 |
|---|---|---|
| | (Amounts in thousands of dollars) | |
| Canadian corporate tax rate | 46% | 46% |
| Expected income tax expense | $63,509 | $41,987 |
| Add (deduct): | | |
| Crown charges disallowed for tax purposes less provincial rebates | 12,458 | 10,921 |
| Federal resource allowance | (10,516) | (8,251) |
| Depletion allowance on Canadian oil and gas production income | (7,232) | (5,566) |
| Frontier exploration allowance | (20,202) | – |
| Investment tax credit | (1,015) | (1,485) |
| Manufacturing and processing tax rate reduction | (1,587) | (1,180) |
| Other | (1,636) | (405) |
| Deferred income taxes | $33,779 | $36,021 |

## 9. ANTI-INFLATION PROGRAM

The Company is subject to the Anti-Inflation Act which is scheduled to remain in force until December 31,1978. The Act provides for the restraint of increases in profit margins, prices, dividends and employee compensation. The controls on profit margins and prices do not apply to petroleum, natural gas and natural gas liquids as they are subject to the Petroleum Administration Act. The Company believes it is in compliance with those provisions of the Anti-Inflation Act that are applicable to its operations.

# TEN YEAR REVIEW

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE FIGURES)

| FINANCIAL | 1977 | 1976 | 1975 |
|---|---|---|---|
| **Revenue [after royalties]** | 521,433 | 385,490 | 234,669 |
| Cost of Product | 254,261 | 212,977 | 123,184 |
| Operating Expense | 67,390 | 40,361 | 19,327 |
| General and Administrative Expense | 7,083 | 4,595 | 2,399 |
| Interest | 29,446 | 18,068 | 11,058 |
| Depreciation and Depletion | 25,189 | 18,214 | 13,688 |
| **Net Earnings Before Deferred Income Taxes** | 138,064 | 91,275 | 65,013 |
| Provision for Deferred Income Taxes | 33,779 | 36,021 | 23,893 |
| Net Earnings Before Extraordinary Items | 104,285 | 55,254 | 41,120 |
| Extraordinary Items | – | – | – |
| **Net Earnings for the Year** | 104,285 | 55,254 | 41,120 |
| Average Shares Outstanding | 11,231,000 | 11,501,000 | 11,250,000 |
| Net Earnings Per Share* | 9.29 | 4.80 | 3.65 |
| **Cash Flow from Operations** | 162,015 | 109,806 | 80,356 |
| **Long Term Debt** | 520,466 | 372,391 | 239,762 |
| Capital Expenditures** | | | |
| Exploration and Proven Property Acquisitions | 161,790 | 48,108 | 59,447 |
| Development | 15,500 | 26,857 | 24,051 |
| Plants, Pipelines and Related Facilities | 129,160 | 39,618 | 30,401 |
| Drillships and Supply Vessels | 15,490 | 93,559 | 77,005 |
| **Total Capital Expenditures** | 321,940 | 208,142 | 190,904 |
| **OPERATING** | | | |
| **Gross Production** — Daily Average | | | |
| Oil, Gas Liquids and Oil Equivalent of Gas - Barrels | 51,756 | 45,600 | 39,312 |
| Oil and Gas Liquids - Barrels | 33,487 | 30,130 | 29,238 |
| Gas Production - MMCF | 147.8 | 143.1 | 135.3 |
| **Gross Reserves***** | | | |
| Estimated Recoverable Oil, Natural Gas Liquids, and Oil Equivalent of Gas Reserves - Millions of Barrels. | 332.0 | 307.6 | 239.6 |
| **Land Holdings** — Acres | | | |
| Gross Working Interest | 42,475,000 | 43,173,000 | 42,310,000 |
| Net Working Interest | 20,670,000 | 22,529,000 | 21,224,000 |
| Gross Royalty Interest | 29,823,000 | 26,570,000 | 34,364,000 |

See page 22 for Management's discussion and analysis of the Company's Financial Statements for 1977 and 1976.

* Before Extraordinary Items.

** Includes investment in Panarctic Oils Ltd.

*** Excludes heavy oil reserves at Hughenden and the Athabasca Oil Sands in Alberta, substantial gas reserves in the Canadian Arctic Islands and discoveries in the Beaufort Sea. The oil equivalent of gas is determined on the basis of relative prices.

| 1974 | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 |
|---|---|---|---|---|---|---|
| 171,712 | 71,930 | 52,736 | 41,510 | 28,589 | 23,592 | 24,561 |
| 80,082 | 24,005 | 18,125 | 11,243 | 4,748 | 2,109 | 1,905 |
| 13,969 | 12,317 | 11,506 | 9,573 | 7,186 | 5,638 | 5,322 |
| 2,085 | 1,387 | 878 | 728 | 403 | 273 | 361 |
| 12,220 | 6,957 | 4,869 | 4,064 | 3,134 | 2,796 | 2,521 |
| 11,535 | 7,059 | 6,325 | 5,699 | 5,091 | 4,389 | 4,374 |
| 51,821 | 20,205 | 11,033 | 10,203 | 8,027 | 8,387 | 10,078 |
| 23,605 | 8,500 | 4,554 | 4,082 | 4,107 | 2,985 | 3,565 |
| 28,216 | 11,705 | 6,479 | 6,121 | 3,920 | 5,402 | 6,513 |
| – | – | – | 417 | 2,078 | – | – |
| 28,216 | 11,705 | 6,479 | 6,538 | 5,998 | 5,402 | 6,513 |
| 11,234,000 | 10,745,000 | 10,316,000 | 10,235,000 | 10,153,000 | 10,098,000 | 10,045,000 |
| 2.51 | 1.09 | .63 | .60 | .39 | .53 | .65 |
| 63,356 | 27,264 | 17,358 | 15,902 | 13,118 | 12,776 | 14,452 |
| 110,932 | 94,514 | 83,079 | 73,102 | 74,377 | 42,637 | 38,228 |
| | | | | | | |
| 56,854 | 27,691 | 15,525 | 8,959 | 7,466 | 10,453 | 9,905 |
| 12,690 | 5,436 | 3,674 | 1,596 | 1,237 | 4,734 | 4,735 |
| 13,607 | 39,242 | 18,253 | 18,991 | 30,865 | 14,010 | 4,068 |
| 27,985 | – | – | – | – | – | – |
| 111,136 | 72,369 | 37,452 | 29,546 | 39,568 | 29,197 | 18,708 |
| | | | | | | |
| | | | | | | |
| 37,537 | 40,108 | 37,314 | 30,527 | 27,942 | 26,534 | 27,304 |
| 29,671 | 32,341 | 29,622 | 22,648 | 19,396 | 18,804 | 19,005 |
| 138.3 | 136.2 | 135.3 | 138.9 | 148.3 | 133.4 | 141.6 |
| | | | | | | |
| 211.4 | 213.7 | 198.2 | 196.6 | 202.6 | 198.5 | 143.5 |
| | | | | | | |
| 48,640,000 | 42,297,000 | 43,268,000 | 22,112,000 | 22,256,000 | 23,778,000 | 19,593,000 |
| 21,931,000 | 20,981,000 | 23,656,000 | 16,403,000 | 17,209,000 | 19,127,000 | 15,932,000 |
| 41,281,000 | 43,383,000 | 45,191,000 | 236,000 | 240,000 | 276,000 | 290,000 |

## HEAD OFFICE

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Mailing Address
P.O. Box 200,
Calgary, Alberta, Canada
T2P 2H8

## GENERAL COUNSEL

Robert C. Muir,
Calgary, Alberta

## AUDITORS

Clarkson, Gordon & Co.
Calgary, Alberta

## STOCK LISTINGS

Toronto Stock Exchange
Montreal Stock Exchange
American Stock Exchange, Inc.

## FIELD OFFICES

BRITISH COLUMBIA

- Fort St. John
- Quesnel

ALBERTA

- Consort
- Edmonton
- Empress
- Paddle River
- Rocky Mountain House
- Vulcan

SASKATCHEWAN

- Estevan
- Kerrobert
- Melville
- Steelman

MANITOBA

- Churchill
- Flin Flon
- Snow Lake
- The Pas
- Thompson

ONTARIO

- Sarnia
- Windsor

NORTHWEST TERRITORIES

- Tuktoyaktuk

UNITED STATES

- Denver, Colorado
- Houston, Texas
- Superior, Wisconsin

## OFFICERS

JOHN P. GALLAGHER,
Chairman and Chief Executive

WILLIAM E. RICHARDS,
President

JOHN M. BEDDOME,
Senior Vice-President

CHARLES S. DUNKLEY,
Senior Vice-President

JOHN ANDRIUK,
Vice-President, Exploration

GRAHAM W. BENNETT,
Vice-President, Administration

DONALD R. GILLEY,
Vice-President, Corporate Planning

RAYMOND C. J. JAENEN,
Vice President, Oil

H. JAMES STRAIN,
Vice-President, Drilling

ANDREW H. YOUNGER,
Vice-President, NGL

HENRY T. ASTLE,
Treasurer

HARRY M. EISENHAUER,
Secretary

VICTOR J. ZALESCHUK,
Controller

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GORDON R. HARRISON,
President, Canadian Marine Drilling Ltd.

*BOARD OF DIRECTORS (back row l. to r.) William E. Richards, Frederick W. Sellers, Norman J. Alexander, John P. Gallagher, Maclean E. Jones, Fraser M. Fell; (front row l. to r.) James B. Redpath, A. Bruce Matthews, John L. Loeb, William F. Morton.*

**DIRECTORS**

NORMAN J. ALEXANDER,△
Winnipeg, Manitoba
Investment Consultant

FRASER M. FELL, Q.C.,
Toronto, Ontario
Partner, Fasken & Calvin

JOHN P. GALLAGHER,*
Calgary, Alberta
Chairman

MACLEAN E. JONES, Q.C.,△
Calgary, Alberta
Partner, Jones Black & Company

JOHN L. LOEB,
New York, N.Y.
Chairman of the Finance Committee
Loeb Rhoades, Hornblower & Co.

A. BRUCE MATTHEWS,
Toronto, Ontario
Chairman, Dome Mines Limited
Executive Vice-President,
Argus Corporation Limited

WILLIAM F. MORTON,*
Winchester, Mass.
Investment Manager

JAMES B. REDPATH,*
Toronto, Ontario
President, Dome Mines Limited

WILLIAM E. RICHARDS,*△
Calgary, Alberta
President

FREDERICK W. SELLERS,
Winnipeg, Manitoba
President, Spiroll Corporation Ltd.

* Executive Committee Member
△ Audit Committee Member

This table shows the high and low price at which shares of the Company sold on the American Stock Exchange during each quarter of 1977 and 1976:

| | First Quarter | | Second Quarter | | Third Quarter | | Fourth Quarter | |
|---|---|---|---|---|---|---|---|---|
| | 1977 | 1976 | 1977 | 1976 | 1977 | 1976 | 1977 | 1976 |
| High | 41 7/8 | 36 5/8 | 41 1/8 | 45 3/4 | 44 5/8 | 42 3/8 | 55 1/2 | 41 |
| Low | 37 1/4 | 32 | 35 3/4 | 33 | 36 3/8 | 33 1/2 | 34 5/8 | 32 1/2 |

DOME

# DOME PETROLEUM LIMITED 1977 ANNUAL REPORT

FOOTHILL PRINTERS LIMITED CALGARY
LITHOGRAPHED IN CANADA